

## Harmonising Shariah Principles on Debt Recovery Practices of Islamic Banks with Regulations Related to Authorised Debt Management Agency in Malaysia

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### ABSTRACT

*The philosophy, principles and legal provisions as well as practices of conventional and Islamic financial institutions are different from one another. Particularly in relation to nonperforming loan or financing, the underlying contracts between the Islamic financial institutions and their customers are totally distinctive from that of conventional counterparts which are having a debtor-creditor relationship. In addition, the late payment charges and calculation of such charges are different in the former than the latter. These differences lead to different debt restructuring processes between the two. Albeit these differences, the current policies and regulations related to Debt Management Programme (DMP) for these institutions in Malaysia are the same. Thus, this study aims to analyse and evaluate current debt recovery practices by examining the existing practices of Islamic banks and the regulations on DMP and ascertain the most appropriate approach in harmonising conflicts between Shariah principles of debt recovery and the regulations. The study is qualitative research that will be primarily based on library research. It adopts doctrinal analysis of primary and secondary sources with minor fieldwork to get information on the practices. It is hope that this research can contribute significantly to the knowledge as well as propose the best solution to avoid any possible conflicts.*

### KEYWORDS

*Harmonisation, Shariah, Debt Management Programme*

### INTRODUCTION

Malaysia has become a country that provides a dual banking system which consists of Islamic and conventional banking in its financial framework. Section 27 of the Central Bank of Malaysia Act 2009 [Act 701] provides that the financial system shall consist of the conventional financial system and the Islamic financial system. In relation to credit risk management, the Central Bank has established frameworks for the financial institutions to manage and avoid default cases. The Bank issued the Policy Document on Credit Risk for banking institutions on 31st July 2023. The policy aims to elevate credit risk management practices in the banking, takaful and

financial holding industries (Bank Negara Malaysia, 2023).

The existence of two different financial systems at the same time causes a clash between the principles practiced by these two systems which requires further analysis and research on how these two systems can be practiced in harmony. One of the points of conflict between these two systems is through the debt management program that has been offered by Credit Counselling and Debt Management Agency (AKPK). Originally, AKPK was established in 2006 by the Central Bank to help borrowers from financial institutions who have financial problems and help provide advice to new borrowers regarding financial management and facilitate loan repayment to reduce

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defaults in financing (Credit Counselling and Debt Management Agency, 2023). For this study, the focus is placed on one of the services offered by AKPK which is the point of collision between the Islamic financial system and the conventional financial system, namely the Debt Management Program (DMP). DMP operations may involve debt consolidation of Shariah-compliant financing and conventional loans (Mohd Yusoff et al, 2019).

### **Debt Management Program in Malaysia**

Debt recovery methods used in Islamic Financial Institutions (IFI) in Malaysia consist of three types of recovery tools which are In House Recovery, Outsourcing Recovery, and Sale of Bad Debt. In practice, there are four types of bodies that relate to debt recovery which are the Central Bank, Islamic Banks, Collection Agencies (Outsourcing Agencies), and the AKPK (Razman & Mohd Safian, 2019).

AKPK through its DMP is one of the Central Bank's initiatives in protecting the consumers' welfare that is complemented by a comprehensive financial literacy programme set to enhance the financial capability of consumers (Mohd Yusoff et al, 2019). This research will firstly, examine the practice of DMP and secondly, highlight the Shariah perspective on recovery of debts and DMP.

Before analysis is carried out on DMP operating procedures and Shariah principles related to the implementation of DMP, it is necessary to identify the legal provisions that manage AKPK organizations. This study found that as of the date of publication of this study, no law has been gazetted regarding the requirements of financial institutions in Malaysia to adopt any proposed payment plan that has been submitted by AKPK. There is a circular issued by the Department of Consumer and Market Practices, Bank Negara Malaysia on 17 April 2006 which states the rationale for the establishment of AKPK, the types of services offered, the application and coverage of AKPK, the moratorium, the scope of cases that can be referred to AKPK and the functions and responsibilities of the institution finance against AKPK (Bank Negara Malaysia, 2006).

Details regarding the establishment of AKPK can also be traced in the Act 701. Section 48(1)(b) of the Act provides that the Central Bank may,

establish a body corporate for the purposes of providing financial counselling, debt management services and education on financial management;

### **DMP under AKPK**

DMP is a program that has been created by AKPK to help borrowers burdened with debt problems to control debts that have been made with financial institutions by involving financial advisors from AKPK. The financial adviser will issue a debt repayment plan that suits the borrower's ability based on joint negotiations between the financial adviser and

the financial institution involved. In general, among the requirements to become a financial advisor under the AKPK is that the individual must have experience working in the banking industry and be at least 35 years old. To comprehensively examine the operation of DMP, two (2) aspects need to be discussed namely, transactions between AKPK and IFI customers and transactions between AKPK and the IFI (Credit Counselling and Debt Management Agency, 2023).

The AKPK will assist customers with debts and re-arranged the payment method/table with all the financial institutions that are involved. The services provided by AKPK are free of charge. Under this programme, financial institutions that are required to work with AKPK comprise of all commercial banks including conventional and Islamic banks, all insurance companies, takaful operators, development financial institutions, credit card issuers, selected cooperatives, Malaysia Building Society Berhad and Perbadanan Tabung Pendidikan Tinggi Nasional (Bank Negara Malaysia, 2013). All the customer's financial obligations with the financial institutions will be consolidated together and the AKPK will suggest an amount as minimum as RM50.00 per month subject to the agreement of both the customers and the financial institutions involved. The maximum repayment period under DMP is 10 years inclusive of the proposed interest rate. For an individual to enrol into the programme, a person must fulfil certain conditions and his/her rights for any future financing or loan with any financial institutions will be deprived (Mohd Yusoff et al, 2019).

For customers who wish to obtain a debt payment plan under the DMP, the customer must send an application form to participate in the program to AKPK. The application form can be accessed online on the official website of AKPK (Azmi et al, 2017). The transaction between the AKPK and a customer commences in the following sequences (Azmi et al, 2017):

1. Online application to participate in DMP.
2. Interview session physically at AKPK premise.
3. Customer shares his financial standing with AKPK financial advisor.
4. Evaluation of customer's monthly expenses and savings.
5. Declaration of all customers financial obligations.
6. The AKPK financial advisor communicates with relevant financing providers.
7. AKPK issues verification letter of the DMP and the customer is given options to make payments through AKPK or the financing provider directly.

In addition to this, there are several conditions that must be complied with by the customer to qualify

the customer to participate in this program. The conditions to participate in DMP are as follows (Mason & Madden, 2017):

1. Debt incurred by customers to financial institutions is supervised by Bank Negara Malaysia.
2. The customer has disposable net income to pay all expenses.
3. The amount of debt incurred by the customer does not exceed RM 2 million; and
4. The customer has not been declared bankrupt.

In ascertaining the practices at AKPK pertaining to DMP, this study has interviewed online the Head of a Branch Operations Department, AKPK coded as Respondent 1, on November 24, 2023. According to him, when a customer has successfully joined the DMP, the customer's participation status will be displayed in the Central Credit Reference Information System (CCRIS). Next, the customer is no longer qualified to apply for any financing and loans from financial institutions until the customer stops participating in the DMP (Bank Negara Malaysia, 2023). Any loan or financing that have been restructured or rescheduled will be categorized as "impaired". However, if the restructuring and rescheduling has been done by AKPK, the loan/financing will be considered as "non-impaired" immediately when the terms of the new agreement have been agreed by the customer and AKPK (Respondent 1, interview, November 24, 2023).

On the other hand, the transactions between AKPK and financial institutions shall take place when AKPK starts communicating and negotiating with financial institutions involved pertaining to the commitment of customers who have debt problems. When AKPK receives an application to join DMP, AKPK will send the application to the financial institutions involved. Next, the financial institutions involved will provide AKPK with details regarding the customer's loan or financing to AKPK such as the principal amount of the financing/loan, the amount of interest or profit, the amount of penalty (if any) or any amount imposed on the customer. This information must be provided to AKPK within the set time period. Based on the information that has been provided to AKPK, AKPK will issue a payment plan that suits the customer's financial ability. There are two ways AKPK issues this payment plan which is either through rescheduling or restructuring (Murshid, 2023). However, financial institutions themselves will choose whether to use rescheduling or restructuring. Therefore, the method used by AKPK to issue the payment plan will depend on the financial institution itself.

If there is a need for restructuring, AKPK will use the principal amount of financing that has not yet been paid to be used as a new amount of financing for

customers. When the restructuring is done, a new contract will be concluded and AKPK will propose a new profit amount. Therefore, a payment plan based on restructuring will involve the signing of a new contract with a different amount of profit compared to the existing financing (Respondent 1, interview, November 24, 2023).

In 2018, AKPK collaborated with the Association of Islamic Banking Institutions Malaysia (AIBIM) to harmonize DMP operations with financial institutions that need to restructure to Islamic financing. As a result of the collaboration, AIBIM has introduced aqad based on tawarruq contract to facilitate the involvement of AKPK in transactions between customers and Islamic financial institutions. With the existence of this aqad, Islamic financial institutions can directly use the aqad that has been introduced by AIBIM in the restructuring process of Islamic financing. However, the use of the aqad is still subject to the approval of the Shariah committee from the respective financial institution. Islamic financial institutions are allowed to reject the aqad that has been proposed by AKPK if the Shariah committee finds that the aqad is not compatible with the original product that has been offered by the bank. In such a situation, Islamic financial institutions should introduce other aqad, which are suitable for the products offered based on the assessment of each bank's Shariah committee (Respondent 1, interview, November 24, 2023).

For rescheduling, the existing agreement that has been signed between the financial institution and the customer will be maintained. AKPK will establish a debt payment plan based on the total sales price that has not yet been paid by the customer to the bank. For rescheduling, AKPK will only extend the original period of customer financing without setting the requirement for a new aqad to be implemented by the customer. Unlike restructuring, if rescheduling is applied, the financial institution is not permitted to impose additional profit on the outstanding financing amount. This is because the profit charge has been imposed on the amount of existing financing (backdated). Therefore, even if the financing period is extended in the rescheduling, the profit charge cannot be imposed on the customer and this is the point of difference between restructuring and rescheduling where, the profit charge can be imposed in the financing restructuring while the profit charge will not be imposed in the rescheduling even though the financing period has been extended (Bank Negara Malaysia, 2020).

In the process of approving a payment plan for DMP, AKPK divides DMP approval into two (2) conditions. In summary, the first situation is when the rescheduling or restructuring is for an unsecured loan where the total payment including the proposed profit

is within 10 years. For the first situation, the financial institution will be bound to accept the payment plan that has been set by AKPK and it cannot be rejected unless there is a reasonable reason. Among the reasonable reasons is if a customer who has received a payment plan from AKPK before and has failed to follow the plan and applies again from AKPK to obtain a new payment plan (Respondent 1, interview, November 24, 2023). The second condition for DMP approval is for financing that has collateral (housing and car financing) and unsecured financing that does not belong to the first condition. In the second situation, AKPK must obtain prior approval from the financial institution before approving the payment plan under DMP to the customer. If the financial institution rejects the payment plan that has been proposed by AKPK, the financial institution must make a counter proposal to AKPK. However, the counter proposal must be within the range of the amount that AKPK has proposed in the beginning (Azmi et al, 2017).

Based on this discussion, it can be concluded that the operations involved in the implementation of DMP are rescheduling and restructuring. The next chapter will discuss sharia principles related to rescheduling and restructuring in the context of Malaysian legislation.

The Central Bank has provided a clear definition of rescheduling and restructuring which is rescheduling and restructuring refers to modifications made to the terms and conditions of existing loans/financing that increase the customer's credit risk. This includes (but is not limited to) extending the financing period and rescheduling the loan/financing to obtain a more flexible payment plan. Rescheduling and restructuring can be done by financial institutions provided there is a policy that outlines the following (Bank Negara Malaysia, 2015):

1. Establishing controls to avoid the issue of extending funding without stopping (ever-greening), that is by establishing the situation regarding funding eligibility that can be restructured or rescheduled;
2. Ensure that the rescheduling and restructuring of Islamic financing is Shariah compliant, and
3. Setting the minimum amount of repayment period (based on the restructured terms) that must be maintained before the structured or rescheduled financing/loan can be categorized as "non-impaired".

On 31 July 2023, the Central Bank issued another policy document that reiterated the need for financial institutions in Malaysia to set clear policies in allowing rescheduling and restructuring. This matter is as detailed in Appendix 1 of the policy document. The need to ensure that the rescheduling and restructuring of Islamic financing is compliant with shariah principles is reiterated in Appendix 1, paragraph 2 (e), of the policy document (Bank Negara, 2023). Based on this provision, Islamic financial institutions that offer Shariah-compliant financing facilities must ensure that the financing is Shariah-

compliant as long as the financing operates, including after restructuring and rescheduling is done and not only at the initial stage (Abd Hafiz et al, 2017).

Based on these provisions, the Central Bank allows rescheduling and restructuring. However, the question that needs to be resolved is, does the Shariah allow rescheduling and restructuring to be done on the financing that has been agreed upon by the parties at the beginning? This study found that in Shariah, there is an agreement that for the rescheduling of funding, no Shariah issues arise. The extension of time given by the debtor is divided into two, namely the extension of time given with an increase on the amount of existing financing and the extension of time given without an increase on the amount of existing financing. For the first category, Shariah has no objection to its implementation (Hasan et al, 2018). In the context of the discussion regarding Islamic financial institutions in Malaysia, there is a need to mention the body responsible for coordinating sharia law that applies to a sharia issue related to the facilities offered by Islamic banking in Malaysia, which is the Sharia Advisory Council (SAC) under the Central Bank. According to section 29 of the Islamic Financial Services Act 2013 [Act 759], the Bank with the advice of the SAC can determine standards on Shariah matters for the conduct of business, affairs or activities by an institution that requires the determination of Shariah law. The Act 701 provides for the functions of the SAC which states that among the functions of the SAC is to determine the Shariah law on any financial matter and to advise the Bank on any Shariah related issue with Islamic financial business. Under these provisions, the word "determination" has been used by the legislator to mean the opposite of "determination". Therefore, it can be concluded that the Bank will determine the law related to Islamic finance in Malaysia instead of "setting" the law. This is because the determination of the law is done by the mufti in Malaysia while the Bank, as provided in section 52(1)(a) and (b) of the Act 701, only determines the law that applies in Malaysia regarding Islamic finance. For example, bai-al mu'atoh (buying and selling without aqad) which has been prohibited by ulama as-Syafie, has been allowed by SAC based on the practice of other ulama'.

Based on the provisions above, the Bank has determined that based on the agreement of the parties, the financing period can be extended without entering into a new financing agreement subject to both parties being satisfied with the agreement that has been signed and the price charged on customers do not exceed the existing sales price (Bank Negara Malaysia, 2010).

In general, Shariah does not allow an extension of time to be given to make financing payments along with an increase in the amount of financing because the increase is considered as riba. Muslim scholars have agreed on the prohibition of qalb al-dayn because it is considered one of the types of usury and it is what

scholars call usury which is clear in its form (Abdullah, 2013).

According to the SAC of Malaysian Securities Commission, qalb-dayn is the exchange of an existing debt for a new debt in two situations. The first situation is when the debt is restructured by making an extension of the payment period which causes an increase in the amount of the existing debt without terminating the existing contract. The second situation is to restructure the debt by terminating the existing contract and entering into a new contract with a new amount along with an extended payment order compared to the existing contract (Securities Commission Malaysia, 2020). Another recent study on restructuring explain in its research findings that the Shariah committee in every Islamic financial institution should ensure that the implementation of restructuring offered to customers is syariah compliant. The research also suggested that Islamic financial institutions to offer rescheduling instead of restructuring to avoid sharia issues related to the facility (Abdul Muneem et al, 2020).

However, this study also found that there are contemporary scholars who allow the implementation of restructuring. For instance, Elgari said, "except for the nature of qalb-dayn which is prohibited because of its characteristics related to insolvency where we have been instructed to wait until the debtor is able to pay the debt. As for the debtor who can pay the debt, the new transaction that has been entered into between the debtor and the creditor will not be considered as a prohibited qalb dayn" (Abdullah, 2013).

Looking at the fact that some scholars forbid qalb-dayn transactions, some guidelines may be followed to ensure the implementation of restructuring is shariah compliant. Among the guidelines mentioned are:

1. Two (2) contracts (existing contract and new contract) must be separated.
2. The new contract cannot stipulate that the new financing is to pay the existing debt; and
3. The debtor must agree to the new contract unconditionally (Hasan et al, 2018).

Based on differences of opinion by scholars regarding the issue of restructuring by Islamic financial institutions in Malaysia, the Central Bank based on advice from the SAC has determined the necessity of restructuring through the 160th meeting dated 30 June 2015 with the condition that debtors must solvent to ensure that the debtor is capable (musir) from a financial point of view to bear the new debt. As for debtors who are unable, the jurists agree that deferment must be granted until the debtor is able to repay the debt. Bank Negara Malaysia has allowed this facility to be offered based on the fiqhiiyah method "The original law of muamalat is obligatory, unless there is evidence that prohibits it" (Bank

Negara Malaysia, 2017). Next, the SAC decided that Islamic financial institutions (IFI) are not allowed to take into account the accrued profit for the original financing, as the new principal amount for the structured or rescheduled financing (Bank Negara Malaysia, 2021). Therefore, in implementing restructuring and rescheduling, Islamic financial institutions must ensure that the new principal amount for the restructured and rescheduled financing is equivalent to the remaining principal amount of the original financing if there is no additional financing. The Central Bank has set two other conditions which are:

1. The amount of accrued profit and late payment charges (if applicable) for the original financing can be added to the total debt payment obligation but this amount cannot be considered in the calculation of the new profit (cannot be capitalised); and
2. The prohibition of compounding gains applies to structured and rescheduled financing for all customers (including musir and mu'sir) (Bank Negara Malaysia, 2021).

The above decision is a continuation of the decision of the SAC at the 30th Special Meeting dated 14 July 2020 (revised on 16 October 2020) which prohibits the practice of compounding profits for scheduling and restructuring during the COVID-19 pandemic. Although the decision was originally enforced to ease the customers of Islamic financial institutions during the period of the COVID-19 pandemic, however, after taking into account the broader aspect of maslahah that includes the aspect of dharar for IFI customers, the SAC has taken the view that there is justification for the decision to be maintained and its application extended to all IFI customers in normal situations (Bank Negara Malaysia, 2021). Further to that, the Central Bank has also determined through the 26th meeting held on 26 June 2002 that reference to new financing agreements to existing financing agreements in the process of restructuring and rescheduling is allowed to avoid double payment of duties stem. MPS states that this determination is done considering the customer's concerns in scheduling and restructuring (Bank Negara Malaysia, 2010).

## RESULTS AND FINDINGS OF THE STUDY

There is a need to carry out an analysis on the debt management program offered by AKPK whether it is done in accordance with the principles of sharia that have been set by the sharia law. This is important because this service is not like a service that provides financial counselling and education on financial management because these services adhere to the principles of sharia as discussed earlier. The DMP involves changes to the basic terms and conditions of

existing Islamic financing that have been agreed between financial institutions and customers. As discussed, the debt payment plan that has been set by AKPK must be approved by the financial institution and it can only be rejected if there is a reasonable reason. Furthermore, if the proposed plan is rejected, the compensation proposal given must be within the range of the amount that has been proposed by AKPK at the beginning. This shows that AKPK has significant power in the banking industry in Malaysia.

To assess whether DMP operations are in line with Shariah principles, there are two (2) points that need to be highlighted for the purpose of this study. First, AKPK does not offer or manufacture their own products to customers. This is because AKPK only submits debt payment plan proposals to banking institutions and these institutions are responsible for preparing all agreements related to the DMP. This means, AKPK does not involve in the preparation of documents for scheduling and restructuring purposes under DMP. The payment plan that has been proposed by AKPK only acts as a guideline for financial institutions to make restructuring and rescheduling under DMP. Second, the services offered by AKPK cannot be equated with services offered by financial institutions. According to section 2 of the Islamic Financial Services Act 2013, "Islamic banking business" (paragraph c) means, among other things, the business of "financing provision". Next, "financing provision" has been defined in the same provision as "making, or making an arrangement for another person to make, a business or activity that complies with Shariah".

Although on the surface AKPK can be said to be planning for another person by issuing a debt payment plan, the services offered by AKPK are provided free of charge. This negates the "business" element in the definition of "Islamic banking business". Since AKPK is a "corporation" established under section 48 (1)(b) of the Bank Negara Malaysia Act 2009, AKPK is not subject to all policy documents and circulars issued by Bank Negara Malaysia. Therefore, policy documents such as the guideline on Classification and Impairment Provisions for Loans/Financing and Credit Risk are not applicable to AKPK (Murshid, 2023). For example, if scheduling and restructuring is done by a financial institution, the financial institution is subject to the Classification and Impairment Provisions for Loans/Financing and Credit Risk policy document which has stipulated that only in certain situations can scheduling and restructuring be offered. However, AKPK is not subject to this guide. In fact, AKPK is also not subject to the guidelines and decisions that have been gazetted by the Shariah Advisory Council.

Although AKPK is not subject to the guidelines set by SAC in carrying out scheduling and

restructuring, this study found that IFI have enough autonomy to ensure that the Shariah-compliant financing that has been offered to its customers remains Shariah-compliant even after going through the DMP managed by AKPK. There are three (3) arguments to support this statement. First, financial institutions have the option of either choosing restructuring or rescheduling to be used in the DMP. As discussed earlier, there are no Shariah issues that arise in the implementation of the rescheduling. However, there are various Shariah issues that arise in the implementation of restructuring. This study found that financial institutions are still responsible for ensuring that the financing offered is Shariah-compliant financing based on the fact that financial institutions are responsible for choosing whether to schedule or restructure. The second argument is that Islamic financial institutions have the option to use the aqad that has been prepared by AIBIM. As stated earlier, AKPK gives freedom to financial institutions regarding the choice to use the aqad that has been introduced by AIBIM or not. If the syariah committee of the financial institution is of the opinion that the AIBIM aqad that has been offered by AIBIM is not compatible with the existing financing aqad, the Islamic financial institution must introduce an aqad that is suitable for the financing that has been offered by the financial institution.

The third argument is that Islamic financial institutions are responsible for preparing all written agreements regarding DMP except the aqad that has been prepared by AIBIM. Based on the analysis of the standards set by SAC for restructuring and rescheduling, all these standards must be complied with at the documentation level and the party responsible for preparing all documentation and agreements regarding DMP is the financial institution. For illustrative purposes, SAC has stipulated that in the calculation for restructuring, the new principal amount of the restructured and rescheduled financing must be equal to the remaining principal amount of the original financing. Financial institutions must also ensure that the amount of accrued profit and late payment charges (if applicable) are not considered in the new profit calculation (cannot be capitalised). These conditions are complied with at the documentation level and are not managed by AKPK. In fact, in the implementation of DMP, financial institutions are responsible for declaring to AKPK 2 types of accounts, namely, profit account and principal amount account for a financing. Therefore, in compliance with the SAC decision to avoid compounding profits during the COVID-19 outbreak at the 30th Special Meeting dated 14 July 2020 (revised on 16 October 2020), AKPK has a role to determine to AKPK these two types of accounts.

At this stage, there is a need to touch on the issues that have been highlighted in previous studies related to Shariah issues in the DMP. The following are the findings of this study based on the questions that have been raised in previous studies:

The first issue is regarding price fixing in the murabahah contract. AKPK has collaborated with AIBIM to introduce aqad to facilitate restructuring and rescheduling on existing funding. The Aqad that has been offered is using a tawarruq contract. Therefore, there are other assets that are the basis in the restructuring and rescheduling that are not the same assets used for existing financing. Ultimately, there is no sharia issue in the restructuring and rescheduling even though the existing financing has used a contract that sets a fixed price because the DMP process has been made with a new contract with a new asset.

The second issue is regarding the mixing between conventional loans and sharia-compliant financing in the DMP process. There is no clear decision from SAC regarding the issue of mixing conventional loans and sharia-compliant financing in the restructuring and rescheduling process. However, based on the decision of the 30th SAC Special Meeting dated 14 July 2020 (revised on 16 October 2020), SAC has decided that IFI is allowed to restructure conventional loans to Islamic financing. However, the restructuring of Islamic financing to conventional loans is not allowed. However, should the customer still choose to restructure their Islamic financing to a conventional loan, it is the customer's prerogative and choice to do so. In this case, the customer's choice is beyond IFI's responsibility and control. The decision explains that financial institutions (with the consent and wishes of the customer) can restructure and reschedule financing even if there is a mix between conventional loans and Shariah-compliant financing. In addition, AKPK has stated that the DMP distinguishes between an account for syariah-compliant financing and an account for conventional loans. AKPK differentiates the way each debt is calculated in the contract provided. The amount of debt under a conventional loan that is considered "total arrears" is the amount that does not include future profits and interest rates on existing loans. In conventional loans, there is no fixed contract amount or ceiling price as in Shariah-compliant financing. As for the Shariah-compliant financing account, the amount of debt for DMP is considered as the "remaining sales price" which is included with the portion of the total profit in the future as well as other amounts that need to be paid to the financial institution. This method of calculation shows that AKPK does not hit equally in conducting DMP to its customers who have two different accounts.

## CONCLUSION

This study examined the operational framework of the Debt Management Programme (DMP) under AKPK, with particular focus on its interaction with financial institutions and its compatibility with Shariah principles in the context of Islamic financing. The findings show that DMP primarily operates through rescheduling and restructuring mechanisms, facilitated by AKPK but substantively executed by financial institutions, which retain responsibility for documentation, Shariah compliance, and contractual enforcement. Rescheduling is generally consistent with Shariah principles, as it does not involve an increase in the original debt amount, while restructuring presents more complex Shariah concerns, particularly in relation to *qalb al-dayn* and potential elements of *riba*. Nonetheless, Malaysia's Shariah Advisory Council has permitted restructuring subject to strict conditions, including the prohibition of capitalising accrued profits and the avoidance of compounding gains. The study also finds that AKPK functions as a neutral facilitator rather than a financial service provider, and that Islamic financial institutions maintain sufficient autonomy to preserve Shariah compliance throughout the DMP process.

The novelty of this research lies in its integrated analysis of AKPK's institutional role alongside Shariah governance structures, highlighting how compliance is preserved despite AKPK not being directly bound by SAC policy documents. It also contributes new insights by addressing practical Shariah issues raised in previous studies, such as fixed-price murabahah concerns and the operational treatment of mixed Islamic and conventional debts within the DMP framework. By examining the use of AIBIM's tawarruq-based aqad and the discretion exercised by Shariah committees at the institutional level, the study offers a more nuanced understanding of how regulatory, operational, and Shariah considerations are harmonised in practice.

However, this research is subject to several limitations. It does not provide an in-depth juristic analysis of restructuring from classical and contemporary fiqh perspectives, instead relying primarily on regulatory and institutional positions in Malaysia. The study is also largely doctrinal and policy-based, with limited empirical evidence from actual DMP cases or stakeholder interviews. Furthermore, the findings are context-specific to the Malaysian regulatory and Shariah governance framework and may not be directly generalisable to other jurisdictions with different legal or institutional arrangements. Future research could address these limitations by incorporating comparative cross-country analysis and empirical data on borrower experiences and institutional practices.

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KANDUNGAN / *CONTENTS*

<b>Hukum Memakan Hamster Menurut Pandangan Empat Mazhab</b> <i>The Ruling on Eating Hamsters According to the Perspectives of the Four Madhhabs</i>	1-8
Nur Anis Nadhira Azhar, Mohd Izhar Ariff Mohd Kashim & Nik Salida Suhaila Nik Saleh	
<b>Aplikasi Fatwa Kontemporer Terhadap Produk Makanan Modern</b> <i>The Application of Contemporary Fatwas on Modern Food Products</i>	9-19
Nur Aqila Mohd Zahari, Nur Ain Nabihah Nasharuddin, Mohd Izhar Ariff Mohd Kashim & Nik Salida Suhaila Nik Saleh	
<b>Beli Dahulu Bayar Kemudian (BNPL) Sebagai Wahana Perbelanjaan Patuh Syariah dan Beretika: Satu Tinjauan Literatur</b> <i>Buy Now Pay Later (BNPL) as a Shariah-Compliant and Ethical Spending Mechanism: A Literature Review</i>	20-28
Nurlailatul Akma Abu Bakar, Ahmad Dahlan Salleh	
<b>الزكاة كأداة استراتيجية لتحقيق التنمية المستدامة في سلطنة عمان: نحو تكامل اقتصادي واجتماعي مع رؤية عمان ٢٠٤٠</b> <i>Zakat as a Strategic Tool for Achieving Sustainable Development in the Sultanate of Oman: Towards Economic and Social Integration with Oman Vision 2040</i>	29-36
Badriya Ahmed Mahmood Al Rawahi, Nurul Ilyana Muhd Adnan & Mohammad Zaini Yahaya	
<b>Implikasi Fenomena Childfree terhadap Keseimbangan Generasi: Suatu Tinjauan dari Perspektif Islam</b> <i>Implications of the Childfree Phenomenon on Generational Balance: A Review from an Islamic Perspective</i>	37-46
Maizatul Aliya Hairunnizam, Wafaa' binti Yusof	
<b>Impak Jenayah Merempit Menurut Perundangan Sivil dan Perspektif Hukum Islam</b> <i>The Impact of Illegal Street Racing under Civil Law and the Perspective of Islamic Jurisprudence</i>	47-61
Wan Nur Adlin Sofiya Wan Muhammad Azan & Wafaa' Yusof	
<b>Tahap Pengetahuan Ibu Bapa Terhadap Kesan Trend Sharenting Kepada Kanak-kanak di Lembah Klang, Malaysia</b> <i>Level of Parents' Knowledge on The Impact of Sharenting Trend towards Children in Lembah Klang, Malaysia</i>	62-70
Abdul Muaz bin Mustaffa & Nurbazla Ismail	
<b>Microcredit Berasaskan Dana Wakaf Tunai</b> <i>Microcredit Based on Cash Waqf Funds</i>	71-82
Mohammad Zaini Yahaya, Amir Fazlim Jusoh@Yusoff, Muhammad Adib Samsudin	
<b>Harmonising Shariah Principles on Debt Recovery Practices of Islamic Banks with Regulations Related to Authorised Debt Management Agency in Malaysia</b>	83-91
Uzaimah Ibrahim, Safinar Salleh, Muhammad Zuhaili Muda & Mohammad Hafiz Mohd Zaki	

<b>Inovasi dan Variasi Produk Hibah dalam Perancangan Harta Orang Islam di Malaysia</b> <i>Innovations and Diversification of Hibah Instruments in Islamic Estate Planning in Malaysia</i>	92-103
Nurul Huda Abdullah, Noor Lizza Mohamed Said & Mohd Zamro Muda	
<b>Peruntukan Undang-undang terhadap Kesalahan Persetubuhan Luar Nikah dalam Kalangan Remaja Muslim: Isu dan Cabaran</b> <i>Legal Provisions on Unlawful Sexual Intercourse Among Muslim Adolescents: Issues and Challenges</i>	104-109
Nur Aina Abdulah, Nur Al-Farhain Kamaruzaman, Mashitah Abdul Mutalib, & Nurul Ain Hazram	